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C O N F I D E N T I A L SECTION 01 OF 02 RPO DUBAI 000541

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TAGS: [PGOV](#) [IR](#) [ECON](#) [ENRG](#)

SUBJECT: IRAN: IRGC COMPANY PROFITING FROM SOUTH PARS' WOES

CLASSIFIED BY: Vinay Chawla, Economic Officer, DOS, IRPO; REASON:
1.4(B), (D), (E)

11. (C) SUMMARY: On December 19 Rostam Qassemi, the head of the the IRGC's largest business subsidiary (Khatamolanbia Construction Headquarters, aka 'Qorb'), announced that a presidential economic committee has agreed to transfer USD one billion in foreign reserves to Qorb from Iran's Oil Stabilization Fund for Qorb's past and future work on the 'South Pars' gas project. Qassemi said the project's completion had been delayed due to non-payment by the Pars Oil and Gas Company (POGC), a subsidiary of the Iranian National Oil Company (INOC) and the overall developer for South Pars. His comments follow his December 15 announcement that Qorb would be shifting strategy to focus on 'key sectors' and would limit its focus to large-scale projects, allowing smaller private-sector firms to focus on projects Qorb deemed 'insignificant.' The government's unilateral decision to use previously off-limits Oil Stabilization funds to pay Qorb demonstrates the IRGC's increasing economic influence in the energy sector, heightened by the weakened state of foreign investment.
END SUMMARY.

SHOW ME THE MONEY

12. (C) In a December 19 interview with official news agency Mehr, Qorb head Rostam Qassemi said that the National Economic Council (NEC) approved payment of USD one billion to Qorb for work on Phases 15 and 16 of South Pars. (NOTE: South Pars is the world's largest gas field and borders Qatar and Iran. Iran has divided the field's development into 28 phases, each meant to produce approximately 1 billion cubic feet of natural gas a day with varying amounts of condensates, LPG, and sulfur. To date, it has awarded 23 of 28 phases, of which five are online. END NOTE). When asked about the slow progress on Phases 15 and 16, Qassemi blamed delays on POGC's "financial problems" and suggested the issue is systemic, hurting the development of a number of other South Pars' projects. He said Qorb invested approximately half a billion dollars to complete 43 percent of the project and required full payment in order to continue. According to Qassemi, the NEC agreed and the Central Bank of Iran is drawing up final payment instructions.

QORB SUPER-SIZED

13. (C) The Qassemi interview followed his December 15 press conference in which he articulated Qorb's "new strategy," saying it would no longer "take part in small and medium projects." He said the company's goal remained the same, i.e. to maintain a "presence in risky projects" and "concentrate on areas controlled by foreign companies in our country." However, the new strategy involved taking a "presence in upstream and strategic industries." According to Qassemi, small and medium-size projects will no longer be part of the company's domain which will give "competent private-sector firms more room for activity."

SOUTH PARS: BESET BY PROBLEMS

14. (C) South Pars development has been beset by delays due to technical, contractual, and political issues since its 1990 discovery. Technically, the gas is high-sulfur and hard to process. Contractually, the Iranian Constitution does not allow foreign companies to own a stake in any field or participate in production-sharing agreements. While some foreign companies have signed deals to work within these constraints, Iran's worsening political relationship with Western countries has discouraged international energy companies from investing in South Pars. As a result, Iran has looked to move development forward by signing additional contracts with domestic companies and contractors to develop different phases. Under Ahmadinejad, the process of selecting domestic partners has become further politicized, with Qorb becoming the government prime contractor of choice, and in June 2006 Qorb won a no-bid contract to develop Phases 15 and 16.

BONDS THAT DON'T BIND

15. (C) Unlike foreign companies who provide their own capital for hydrocarbon development and receive a return of profits after production starts, awards to domestic contractors require they be paid for completion of work. In order to finance these deals, the government has attempted to issue bonds open to both domestic and international investors. Given the worsening political situation, the government has had little success selling these bonds though they continue to announce offer dates on which they will become

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available. In October, for example, the government announced a plan to issue bonds worth USD 1.5 billion. This was the second time this bond was announced but not issued. On December 20, Minister of Finance Shamseddin Hosseini announced "Iran is determined to issue bonds worth 2.5 billion euros, which is expected to rise to 5 billion euros next year," and is seeking the assistance of the Islamic Development Bank (IDB) "in distributing them in international capital markets."

16. (C) COMMENT: Based on history, it is unlikely Iran will have much success raising capital through the bond market to fund domestic development of South Pars. A senior Ministry of Oil official was quoted in October as saying that USD 40 billion is required to develop the remaining phases in South Pars. Since no bonds have been issued to date and no explanation provided for their cancellation, it is unclear whether the general economic climate and international pressure have prevented successful issuance or whether it is an intentional Ahmadinejad policy to pull their sale. Regardless, without revenue from bonds or any appreciable foreign direct investment, INOC and POGC are in a far weaker financial position, and successful completion of South Pars projects' are further endangered. As is the case with IRGC-affiliated consortiums winning numerous government privatization bids recently, this direct payment to Qorb of USD one billion demonstrates Ahmadinejad's continued favoritism if not outright bribing of the ever-growing 'IRGC Inc.' END COMMENT.
EYRE